

Service Date: May 23, 1986

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Second Inves-)	UTILITY DIVISION
tigation of INTRASTATE ACCESS)	DOCKET NO. 84.4.15
CHARGES For Telecommunications.)	ORDER NO. 5055g

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BEFORE:

HOWARD L. ELLIS, Commissioner and Hearing Examiner

JOHN B. DRISCOLL, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

INTRODUCTION

1. On August 24, 1982 the Modified Final Judgment (MFJ) was entered in U.S. v. Western Electric and AT&T 552 F. Supp. 131 CD. D.C., 1982), aff'd 103 S.Ct. 1290 (1983) The

functions associated with providing interLATA long distance service and intraLATA services were to be separated among AT&T and the Bell Operating Companies (BOCs). The MFJ ordered the BOCs to file exchange access tariffs for providing ACCESS to the intraLATA toll and local network to complete interLATA telecommunication. These tariffs replace the pre-divestiture process of jurisdictional division of revenues to allocate revenue to the BOCs on an interstate/intrastate basis, as well as a state/local allocation. On February 28, 1983, the Federal Communications Commission (FCC) issued its Third Report and Order in CC Docket No. 78-72, Phase I and on August 22, 1983, it issued Memorandum Opinion and Order. Those orders required all local exchange telephone companies (LEC) to file exchange access tariffs for providing access to the local exchange to c interLATA and intraLATA telecommunications after January 1, 1984.

2. In response, on April 26, 1983, the Montana Public Service Commission (MPSC) staff met with interested parties to discuss the concept of access charges and the MFJ's and Third Report's impact on Montana telecommunication rate structure. A five member industry committee, the Montana Industry Committee, was forged to identify and recommend issues to the Commission. The C identified seven issues which the Commission addressed in Docket No. 83.6.47.

3. Docket No. 83.6.47 resulted in Order No. 5018a, the MPSC initial consideration of the access charge issue, issued November 10, 1983. It required the carriers to mirror the FCC's carrier access charges and to shift 10 percent of the non-traffic sensitive (NTS) revenue requirement from toll usage rates to a state customer access line charge (CALC or end user charge). The MPSC, recognizing that Order No. 5018a's access charge solutions were short term, expected the order to apply only to 1984. However on February 15, 1984, after Order No. 5018a was issued the FCC revised its access charge plan, making the application of certain provisions of Order No. 5018a questionable.

4. In response, on May 1, 1984 the MPSC issued Order No. 5055 creating this docket, Docket No. 84.4.15. This is a generic docket in which any interested party could intervene to participate in the resolution of the access charge issue. After pre-hearing conferences, procedural orders were issued on June 25, 1984, and July 2, 1985, establishing dates for intervention, discovery, filing testimony and hearing. Originally 14 issues were to be

addressed in this docket. A stipulation approved in Order No. 5055 disposed of eight issues (see paragraph 9). The remaining six issues, listed at paragraph 12, are addressed in this order. Two public hearings have been held October, 1984 and December, 1985.

5. In addition to establishing this docket, Order No. 5055 acknowledged that Order No. 5018a was inadequate and interim measures were needed to deal with the state access charge problem. Since June 15, 1984, the MPSC has issued Interim Order Nos. 5055a through 5055e and Order No. 5044c, Docket No. 83.11.80, to resolve access charge issues.

6. Order No. 5055a was issued June 15, 1984. It directed the local exchange companies to mirror the carrier charges filed with the FCC on May 25, 1984, except no CALC was authorized for either business or residential.

7. To maintain revenues at the amount set in Order No. 5018a, Order No. 5055b was issued June 26, 1984. Mountain States Telephone and Telegraph Company (Mountain Bell or MBT) was to continue the bulk bill arrangement it used prior to Order No. 5018a at a reduced level of \$1,146,000.

8. Order No. 5044c, an interim order in Docket No. 83.11.80, found American Telephone and Telegraph Communications (AT&T) entitled to interim earnings relief of \$828,000. To recover this net operating income deficiency required either a \$1,620,000 increase in revenues or a \$1,620,000 reduction in expenses; the MPSC found "it would be more appropriate to decrease the level of access charges paid by AT&T Communication than it would be to increase the rates for services provided by AT&T Communications" (Order No. 5044c, p. 4, Finding of Fact No. 11). The \$1,620,000 reduction was achieved by eliminating the \$1,146,000 bulk bill granted MBT in Order No. 5055b, reducing special access charges to approximately the rate of private line services and, it needed, reducing the local exchange carriers' LEC carrier common line charge (CCLC). The reduction in CCLC was a credit to allow the CCLC tariffs to mirror the interstate tariffs with the exception of the credit. The CCLC reduction applied to all access charges, not just those paid by AT&T.

9. Order No. 5055c was issued December 5, 1984, following the first public hearing in this docket. In this order, in conjunction with Order No. 5044c, the MPSC addressed interim earning relief to AT&T. The LECs were directed to file tariffs accomplishing the reduction in

access charges and to submit proposals for spreading to rates any necessary offsetting adjustments. The MPSC agreed to a stipulation between Rural Montana Telephone System (RMTS), MBT, Northwestern Telephone System (NWTs) and AT&T in which the parties agreed to attempt to resolve Issues 7 through 14 and continue the hearing to a later date on Issues 1 through 6.

10. Order No. 5055d, issued November 28, 1984, ordered that the CCLC credit, identified in Order No. 5055c, not be applied in situations where a discount was given for inferior access.

11. Order No. 5055e was issued December 28, 1984. It approved MBT's allocation to specific telephone companies of the \$1,620,000 reduction in charges to AT&T. The MPSC approved MBT's request to recover the revenue shortfall of \$1,534,069 created by the reduction in access charges in Order Nos. 4044c and 5055c by applying a uniform percentage increase to basic exchange services. NWTs and General Telephone of the Northwest (GTNW) were permitted to recover \$26,480 and \$8,197, respectively, with uniform percentage increase to basic exchange services.

12. Interim Order No. 5055c provided that "there is a need for further development of cost data and assignment methodologies before the Commission will be in a position to establish final access charges" (p. 7). The issues receiving further study were:

1. Should the traffic sensitive (TS) elements of Montana Intrastate access charges mirror those contained in the federal carrier access charges or should they be Montana specific, or even LEC specific?
2. On what basis should the NTS portion of the body of costs allocated to intrastate jurisdiction services to identified?
3. On what basis should the NTS cost identified in No. 2 above be allocated and recovered from interexchange carrier access charges, intraLATA usage rates, and subscriber access charges?
4. On what basis should the NTS cost responsibility allocated to interexchange carriers be collected from interexchange carriers (i.e. build, per line, per minute)?
5. Should any of the NTS costs currently being recovered from carrier access charges and intraLATA usage be shifted to subscriber access charges?

6. If a shift occurs pursuant to No. 5 above, how should an offsetting downward adjustment to intrastate usage charges be calculated and applied? Should such an adjustment recognize stimulation caused by reduced usage charges? On what basis should the stimulation be calculated?

13. This Order provides the MPSC's findings on these six issues, as well as several ancillary issues also raised during the course of Docket No. 84.4.15.

14. Intervenors offering testimony in this docket are:

AT&T Communications of the Mountain States

Montana Consumer Counsel

Mountain States Telephone and Telegraph Company (Mountain Bell)

Northwestern Telephone Systems

Rural Montana Telephone Systems which represents:

Hot Springs Telephone Company, Lincoln Telephone Company, Project Telephone Company, and Ronan Telephone Company. RMTS also represented the unregulated telephone cooperative in this docket.

GTNW, and Touch America also intervened but filed no testimony.

15. After appropriate notice, the second public hearing s held in this docket on December 4-6, 1985. At the conclusion of the hearing, the parties and the MPSC agreed that a proposed order would be issued and 15 days would be allowed for parties to file comments of exceptions to the Proposed Order.

16. Three stipulations were submitted in this docket. During the hearing NWTs and AT&T submitted a stipulation as Exh. NWT3 and RMTS and MBT submitted a stipulation as Exh. RMTS3. AT&T and GTNW submitted a stipulation that was accepted as a late filed exhibit by the MPSC. These stipulations, initiated by the parties agreements between the parties concerning compensation arrangements for jointly provided intrastate services. The MPSC is not a party to any stipulation, has not directed the parties to stipulate or reach an agreement, and has not compelled any telephone utility to participate in, or accept a stipulation. The MPSC did not participate in the negotiation of any stipulation and did not influence the parties' freedom to accept or reject terms of the stipulation.

FINDING OF FACT

ISSUE NO.1.

17. The switched TS carrier access charges at issue here include 1) local transport, 2) local switching, 3) intercept, and 4) line termination.

18. MBT (Exh. MB3, p. 15 and MB10, TFY2, p.9) proposes that the TS prices (including line termination) be set at a level reflecting MBT-specific incremental cost plus a reasonable mark-up based on future market studies. MBT maintains that the existing prices, originally set at a level mirroring the FCC prices at divestiture, are higher than both incremental (see Exh. MB3, LFC-1) and embedded (see Exh. MB8, DRE-6 p. 1) cost. MBT proposes that, pending future market studies, the TS prices be left at their existing level.

19. NWTS (Exh. NWTS1, p. 4 and Exh. 9 from Phase I, p. 11) proposes that the set of switched TS carrier access prices be set at a level which mirrors the existing (i.e., October 1, 1985) FCC prices. The NWTS/AT&T stipulation provides that:

Compensation from access charges other than NTS in 1986 will be at levels approved by the FCC or implemented October 1, 1985.

If the interstate traffic sensitive (TS) rates are increased or decreased during 1986 NWTS' Montana TS rates will be correspondingly changed, (Exh. NWT3, p. 2, paragraph 3)

20. The GTNW/AT&T stipulation provides that:

Compensation from access charges other than NTS in 1986 will be at levels that are currently provided in GTNW's approved Intrastate Access Charge Tariff. If the current traffic sensitive (TS) rates are increased or decreased during 1986, GTNW's Montana TS rates will be correspondingly changed. (Stipulation, February 13, 1996, p. 2, paragraph 3)

21. The RMTS (Exh. RMTS1, p. 7) proposes that "Montana-specific costs should be used in determining traffic sensitive access charges. That is, the LECs "should determine individual company costs and aggregate those costs into a single rate to be applied to all interexchange carriers in Montana." The RMTS/MBT stipulation [Exh. RMTS3, p. 4, paragraph E(2)] states that the RMT members 'shall develop intrastate access charges ... based on total intrastate demand units."

22. AT&T (Exh. AT&T1, p. 35 and Exh. AT&T 4 p. 3) proposes that the switched TS access prices ultimately reflect incremental costs plus a limited and reasonable mark-up:

.....the traffic sensitive portion of carrier access charges should be based on the incremental or marginal cost of transport. It is quite possible that the local exchange carriers will be able to price such transport somewhat above the incremental cost of transport to provide a contribution to the common costs of the company. Exactly how much of a contribution can be thus provided is probably indeterminable at this time. (Exh. AT&T1, p. 35)

23. The MCC (Exh. MCC2) testimony does not specifically address the design of the switched TS prices. Generally, the MCC proposes that prices be set to reflect long run marginal cost (pp. 7-8)

24. The MPSC finds that the switched TS elements of Montana intrastate carrier access prices should reflect 1) incremental (i.e., marginal) cost and 2) to the extent necessary, market value. MBT's proposal to leave the TS price elements at their existing level pending market studies is accepted. This existing level reflects a value-related mark-up over the incremental cost calculated by MBT (see Exh. MB7). Mountain Bell's proposed flattening of the mileage band price differences is accepted. The restructuring is slight, mirrors the federal mileage differences, and leaves all prices at a level greater than incremental cost. The restructuring tends to levelize the markups per mileage band – in the absence of the market study, this would appear appropriate.

25. NWTS' proposal and the GTNW/AT&T stipulation feature a tracking of FCC TS price levels. It is not clear to what extent the original intrastate TS price elements provided in this Docket (Order No. 5055a, June 6, 1984, p. 5) have been changed as the FCC prices have changed. However, because the May, 1984 to October, 1985 TS price increase was accompanied by a more than offsetting NTS decrease, the MPSC finds that, absent LEC-specific analysis of incremental cost and market value, the NWTS and GTNW switched TS prices should also remain at their existing level. To now reverse the mirroring of the October, 1984 FCC price change would appear needlessly disruptive. These prices are not to track future FCC price changes.

26. The RMTS testimony suggests a pooling of LEC-specific embedded TS cost. The RMTS/MBT stipulation is not clear as to how the TS prices should be specifically established. The RMTS have existing National Exchange Carrier Association (NECA) interstate TS prices which reflect a national averaging. The relationship between the NECA TS prices, the RMTS

Part 67/69 NTS reduction (discussed below), and the Part 67/69 TS embedded revenue requirement is not clear. The MPSC finds that the RMTS, like MBT, NWTs and GTNW, should utilize the existing TS price levels. This leaves a situation that features a set of LEC-specific TS prices left at their level pending LEC-specific analysis of incremental cost and market value. To the extent applying the NECA TS price elements intrastate leaves the RMTS in a settlements-related revenue deficient position (beyond the NTS reduction), the RMTS will be required to calculate a new revenue requirement. This calculation is beyond Docket No. 84.4.15. A possible remedy would feature the RMTS filing a revised revenue requirement with a commensurate set of prices in a subsequent docket. These prices could possibly receive immediate interim approval subject to the interim rebate provisions. This procedural remedy would thus allow for intervenor review of the RMTS calculation of revenue requirement and prices.

ISSUE NO. 2.

27. All parties who addressed this issue agreed that Part 67 and Part 69, to the extent relevant, should be the starting point for identifying NTS costs. While MBT did not agree that Part 67/69 should be used indefinitely (see MBT's position on NTS pricing below) in this case MBT identified NTS using its Revenue Cost Analysis System (RCAS) which is heavily dependent on Part 67/69. Several parties proposed some adjustments to arrive at Montana intrastate NTS revenue requirements. Proposals were made concerning the following cost categories:

1. Category 6 NTS central office costs
2. Inside Wiring
3. CPE Phase-out
4. Advertising

28. The first controversy about what costs are NTS access costs was the treatment of category 6 NTS central office costs. AT&T recommends that category 6 NTS costs be included in the NTS revenue requirement because they are nontraffic sensitive and allocated to the interstate jurisdiction based on SPF in the same manner as loop costs. The interstate portion of category 6 NTS costs are recovered through the line termination charge.

29. MBT, NWTs, and RMTs all exclude category 6 NTS costs from the calculation of NTS revenue requirement to be recovered through the CCLC (or a bulk bill), and phased down. While both MBT and RMTs agree that these costs are classified as nontraffic sensitive they do not agree with AT&T's proposed treatment. RMTs points out that these costs are an integral part of the switching functions and should not be considered part of the loop or customer access. MBT includes category 6 line termination in its Revenue Cost analysis System (RCAS) customer access category but proposes that the line termination charge be treated the same as the other switched elements and not phased down.

30. The MPSC finds the phase down of category 6 NTS costs to be inappropriate at this time. MBT (Exh. MBT7) presented an incremental cost study for traffic sensitive rate elements. This study included the incremental cost of line terminations. If the MPSC phased category 6 NTS costs to subscriber line usage factor (SLU) it may result in a rate below the incremental costs of that service. It is not clear, however, whether these costs are customer specific access costs or an integral part of switching costs that should be billed to carriers. The MPSC finds that category 6 NTS costs should be treated in the same manner as other switching costs in this case. However, this is an area that needs to be addressed in future cases.

31. Mountain Bell's testimony seems to indicate a double recovery of category 6 NTS costs. The phase to a SLU level of assignment for customer access costs is calculated based on MBT's RCAS which includes category 6 NTS cost in the customer access category. However, MBT also proposes to recover these costs through a separate line termination charge. MBT should not include the category 6 NTS costs in calculating the CCLC.

32. The second issue concerning the identification of NTS costs is the treatment of inside wiring costs. Mountain Bell and AT&T propose that these costs for purposes of this case. NWTs and RMTs propose that these costs be included. MCC does not address this issue.

33. The MPSC has traditionally made a distinction between embedded inside wire and the provision of new inside wire and the maintenance of all inside wire. The MPSC addressed inside wire in Docket Nos. 82.6.37 and 83.3.17. In both of those dockets the MPSC indicated that the rates for the provision of new inside wiring and the maintenance of all inside wiring should recover the full costs of those services. In both instances the Commission directed either detariffing or time and material charging to recover all the costs of those services. Pursuant

to the 1985 Montana Telecommunications Act, inside wiring has been deregulated.

34. The MPSC finds that new inside wire costs and the costs of maintaining all inside wire should not be included in carrier access charges. The inclusion of these costs would constitute double recovery of the costs or a subsidy from a regulated service to a deregulated service. Neither of these results is acceptable.

35. The FCC ordered the expensing of all inside wire costs in Docket No. 79-105. The FCC ordered that the embedded capitalized base be amortized over ten years. The Commission has shortened this period to three years for Mountain Bell. The embedded base does not have any particular rate to recover the costs associated with it. Therefore, these costs must be recovered from rates for other services. If companies wish to include some of costs associated with the amortization of embedded in side wire (i.e. treat as other NTS loop costs), in carrier access charges the Commission will not object to this treatment.

36. The third issue concerning the calculation of NTS revenue requirement is the federal customer premise equipment (CPE) phase-out. All CPE sold or leased after January 1, 1983 was deregulated by the FCC. At the same time the FCC ordered that the all CPE account balances (both capital accounts and expense accounts) be frozen as of December 31, 1982 and phased out of the separations process over 5 years. On January 1, 1984 Mountain Bell transferred its CPU operations to AT&T Information Systems. The Commission has detariffed CPE for most other companies in the state. The 1985 Montana Telecommunications Act specifically exempted all terminal equipment from regulation.

37. AT&T and Mountain Bell exclude these costs from any NTS revenue requirement calculations. NWTS and RMTS include a state CPE phase-out similar to that of the interstate phase-out. The MCC does not address this issue. The MPSC finds that a state CPE phase-out is not warranted. Unlike embedded inside wiring, the CPE amounts being phased out of the separation process do not represent any true costs. The phase-out of CPU is simply a gift from intrastate rates (presumably basic access rates) of removing CPE from the separations process. RMTS and NWTS do have current CPE costs. However, CE has been deregulated. Therefore, any inclusion of CPE costs in carrier access rates would represent a subsidy from a regulated service to deregulated CPE operations. All costs of CPE should be recovered through CPE prices.

38. The final issue concerning the calculation of NTS revenue requirement is the treatment of advertising costs. AT&T states that Montana law does not allow advertising costs. AT&T states that Montana law does not allow advertising costs to be recovered from ratepayers (Exh. AT&T 5). Montana law does not allow the recovery of advertising costs unless the advertising:

...encourages the conservation of energy or product safety or informs the public of the public of the availability of alternative forms of energy or recommends usage at times of lower rate or lower demand. Furthermore, for communications public utilities, the provisions this section shall not apply to advertising which relates to special equipment that is available to aid the handicapped or to special services that are designed to promote the public health, welfare, and safety or promote more efficient use of a communications system (Sec. 69-3-307, MCA)

39. The MPSC finds that to the extent advertising costs are not allowed by state law they should not be recovered through carrier access charges. The MPSC finds the limited advertising allowed under Montana statutes which benefits inter-exchange carriers and is consistent with the advertising allowed in the last MPSC order, should be included in the calculation of carrier access charges. It should be noted that the Commission specifically directed Mountain Bell to recover the costs of equal access advertising in CD rates in t o. 84.4.19.

ISSUE NO. 3.

40. This issue seeks to resolve the amount of embedded NTS (subscriber loop and NTS end office switching) revenue requirement that should be reflected in a CCLC. MBT (Exh. MBT3, pp.13-14) proposes—step two decrease (one change with the Final Order, a second change one year later), to a relative subscriber line usage factor (SLU): one-half way to SLU in the first step (\$2.154 million/year), and the second half in the second step (\$2 million/year). The basis for MBT's proposal is that, although the incremental cost of interexchange NTS access is zero, SLU can serve as a interim surrogate for a value-related mark-up pending market studies.

41. NWTs (Exh. NWT1. p.5) proposes a six-year transition featuring a phase-down of existing NTS/CCLC recovery to zero. The NWTs/AT&T stipulation (Sch.1) provides a first year reduction of \$384,000/year. The \$384,000 reduction was derived by applying a \$1/month increase to subscriber access prices.

42. The GTNW/AT&T stipulation (Sch. 1) features a NTS/CCLC reduction \$154,000/year. The 154,000 was derived b applying a \$2/month increase to subscriber access prices.

43. The RMTS (Exh. RMTS1, p. 14) proposes and eight-year transition to a 25 percent intrastate has opposed to, effectively, interLATA), gross allocation level. The RMTS/MBT stipulation (p. 3) features a three-year intrastate NTS phase-down of \$900,000/year in step one and an additional \$600,000/year in each of the next two steps.

44. AT&T (Exh. AT&T1, p. 36) proposes a three year transition: in year one the NTS/CCLC would be reduced to SLU, in year tow it would be reduced to zero, and by year three the necessary incremental cost and value data would allow a further reduction down to incremental transport (i.e., TS), plus a value-related contribution to common costs.

45. The MCC (Exh. MCC1, pp. 13 – 15) advocate, that ultimately a demand availability factor of 25 percent should be used to allocate NTS revenue requirement to interexchange intrastate carriers. Its immediate recommendation is no change to the existing CCLC (p. 23).

46. In Docket No. 83.6.47 (Order No. 5018a, pp. 1-9) the MPSC found that “as a transitional goal ... at least some transfer of recovery of embedded revenue requirement from network usage rate elements is both necessary and beneficial, as well as unopposed.” The 10 percent shift required in Order No. 5018a (see Finding of Fact No. 25) was never implemented because of FCC policy changes.

47. In this Docket the MPSC is persuaded by the efficiency testimony provided by AT&T (Exhs. AT&T1 and AT&T2), the bypass testimony of MBT (Exh. MBT4) and the toll user impact testimony of NWTs (Exh. NWTs1 and Exh. 9 from Phase I). The MPSC fails to find any basis for forcing AT&T’s Montana consumers to fund subscriber loops at a level beyond even their relative use of the loop.

48. The MPSC finds that this Docket should provide a two-step price change: July 1, 1986 and July 1, 1987. The two-steps will allow moderation of impacts and provide the necessary time required to engage in further analysis of a rapidly change industry. The second

step price change is to be limited to a compliance filing. This will require the filing of second step price changes with supporting documentation 45 days prior to July 1, 1987.

49. The MPSC finds that SLU serves as an appropriate interim pricing basis. The SLU level is not totally arbitrary (unlike various “gross allocators”) in that the value of access is related to usage of the network.

50. The MPSC accepts MBT’s two-step NTS/CCLS reduction to SLU. The resulting impact on residential subscriber access line prices is not substantial (ignoring the net reduction in RMTS access payments, a \$.37/month increase for single party residential (1FR) each step). Relieving AT&T inter-exchange usage prices of the uneconomic NTS/CCLC burden will avoid higher cost bypass further benefiting Montana consumers.

51. The NWTs/AT&T stipulation provides a first year NTS/CCLC change comparable to MBT’s (31% vs. 27%). The MPSC accepts this change and finds that an equivalent change in the second year is also appropriate. The NTS reduction is to be applied to the lower October, 1985 CCLC level. Even after the two-step NTS/CCLC reduction, NWTs’ 1FR price would remain at less than \$9/month.

52. The GTNW/AT&T stipulation features a first year NTS/CCLC reduction which is nearly twice that found appropriate for MBT and NWTs. The MPSC finds that the reduction provided in the stipulation should be spread over the same two-step period. The resulting change in NTS/CCLC (26%) is comparable to MBT and NWTs. The GTNW 1FR price, after the second step, remains at only \$7.53/month.

53. The RMTS/MBT stipulation represents a delicate balancing in a complex situation. AT&T did not oppose the stipulation. (TR p. 295) The MPSC accepts the changes proposed in the RMTS/MBT stipulation. The \$900,000 reduction is to be applied to the existing NECA interstate CCLC of .0524 \$/MOA. As with the TS price elements, it is not clear whether this CCLC price level will generate the NTS revenue requirement, less the \$900,000. This calculation is also beyond this Docket. The RMTS revenue requirement and resulting CCLC will have to be the subject of a subsequent docket. The MPSC will consider an immediate interim CCLC subject to rebate intervenor review.

54. Given the annual NTS/CCLC revenue level provided above, this issue seeks to establish a price structure that generates that revenue. The existing CCLC features a single \$/minute-of-access (MOA) price element.

55. MBT proposes to maintain the \$/MOA structure pending further analysis of a rapidly evolving national discussion on the subject (see, e.g., Exh. MB4, p. 4).

56. NWTs (Exh. NWTs1, p. 6 and Exh. 9 from Phase I, p. 12) proposes an interim continuance of the \$/MOA structure, but the NWTs/AT&T stipulation (p. 1) features a structure comprised of two elements: a \$/MOA (20%) and a bulk bill/flat monthly charge (80%)

57. The RMTs (exh. RMTs1, pp. 12-13) propose that the NTS/CCLC feature a \$/MOA structure. The RMTs oppose a bulk billing for measurement (allocation) reasons.

58. AT&T (Exh. AT&T4, pp. 6-7) suggests that any Interim NTS/CCLC should be recovered on a “flat monthly basis” with MOA retained as the mechanism to apportion the NTS charge among the IECs.

59. The MCC (Exh. MCC1, p. 23) recommends no change in the existing \$/MOA structure but also appears to suggest a bulk bill concept (pp. 12, 15-16; also see Exh. RMTs2, p. 4).

60. The MPSC finds that the limited evidence submitted on this issue suggests that it would be most appropriate to leave the CCLC price structure in its existing \$/MOA form, pending further analysis. For NWTs, the 20% MOA/80% bulk bill featured in the NWTs/AT&T stipulation is approved. The bulk bill structure is to be applied to the “premium” LECs, only, maintaining the discounted \$/MOA CCLC for FGA/B. The bulk is to be residually calculated and apportioned among the IECs on projected MOA with a quarterly true-up. For the remaining LEC’s the CCLC should feature the existing \$/MOA structure. Several innovative CCLC price structures are being debated. Future proceedings can be directed to this issue. Nationally, (e.g., one-plus, NYNEX, ULAS, etc.).

ISSUE NO. 5

61. Given a decrease in the annual revenues generated through NTS/CCLC charges, this issue seeks to provide the specific price increases which leave the LECs revenue neutral.

62. MBT (Exh. MBT3, pp. 27-35) proposes a set of price changes that is similar to that proposed in Docket Nos. 84.4.19 (general rate case) and 85.5.17 (depreciation represcription). MBT would recover the NTS/CCLC reduction by applying a uniform percentage price increase with certain exclusions are in areas that feature 1) prices in excess of costs with market-driven downward price pressure (e.g., toll, or MTS/WATS, and business subscriber access in the larger communications – the 1FB-2 and related prices), 2) prices which have been recently set in other proceedings (e.g., rural access -- ZIC/ZCC), and 3) prices which do not practically lend themselves to nondiscreet percentage changes (e.g., coin message).

63. MBT, although acknowledging the need for product-level incremental cost analysis, provides its 1984 Revenue Cost Analysis System (RCAS) results in support of its proposed price changes (p. 29 and Exh. MB8, DRE-1). RCAS is not a product-level incremental cost analysis.

64. NWTS (Exh. NWTS1, p. 5) proposes that “the increases to end user rates should be spread uniformly (equal dollar amounts) across business and residential customers.” The NWTS/AT&T (p. 3) and GTNW/AT&T (p. 2) stipulations provide equal dollar per line amounts spread uniformly across business and residential subscriber access prices.

65. The RMTS recommend that “all subscribers, business or residence ... be affected equally” (Exh. RMTS1 p. 1)

66. AT&T (Exh. AT&T4) does not specifically address the LECs’ price structure, other than alluding to higher end user charges (p. 7) and equal imputation of a comparable level of NTS/CCLC into MBT’s MTS/WATS prices (p. 12). The MCC recommends no change in the LEC’s prices (p. 23).

67. In Docket Nos. 84.4.19 (Order No. 5046f, pp. 27-37) and 85.5.17 (Order No. 5173, pp. 4-30) the MPSC’s findings discuss and rule upon the same MBT proposal as presented in this Docket. In those Orders, the MPSC generally approved the MBT proposal. A significant exception, however, relates to the manner in which the single party flat business rate in large exchanges (1FB-2) exclusion is treated. The MPSC, again, approves the MBT proposal with the same exception, pending detailed product-level cost analysis (see Order No. 5046f, Finding of Fact No. 103). The 1FB-2 exclusion is to be treated as the other exclusions (see Order No. 5173, Finding of Fact No. 24). The revenue “lost” by excluding 1FB-2 should be recovered from a

uniform percentage increase applied to all nonexcluded prices, not only the nonexcluded subscriber access as MBT has proposed. To the extent the across-the-board increase applies to nonregulated prices, the effective result is an imputation of higher revenues from those operations. Additionally, the MPSC finds that an examination of the LECs' MTS/WATS prices is possibly in order. It is not readily apparent whether the LEC MTS/WATS prices feature greater or less levels of NTS and TS recovery than AT&T's will, as a result of this Order. This issue, however, is best left to a future examination of LEC-specific rate design.

68. The NWTs and GTNW (modified) proposal. (\$1/access line/month for each of the two steps) are accepted. Those price changes will result in 1FR price remaining below \$9 and \$8/month for NWTs and GTNW, respectively. The RMTS/MBT stipulation is silent as to how the RMTS prices will change. The MPSC finds that the regulated RMTS subscriber access prices are to increase on a revenue-neutral, equal \$/subscriber loop basis. The revenue-neutrality is to reflect only the \$900,000 (\$600,000 in the next two steps) reduction in toll-NTS recovery that is provided in this Order.

69. It is not clear how and to what extent the RMTS/MBT stipulation affects MBT's settlement costs or AT&T's access payments. To the extent that the \$900,000 RMTS reduction applies to MBT (and it is expected that approximately 80% of it will apply) the net revenue flow to MBT shall off-set the NTS/CCLC reduction(s) and corresponding increases in prices. The MPSC directs MBT to file a calculation of this effect in response to this Order. It is the intent of the MPSC to ensure that net revenue-neutrality is achieved for each company individually, and for the State, collectively.

ISSUE NO. 6

70. This issue seeks to resolve two separable, but related, issues: 1) How should AT&T prices be changed to reflect the reduced NTS/CCLC cost? 2) Whether stimulation/repression be considered in this Docket and, if it should be considered, how so?

71. AT&T testifies that:

If the NTS carrier access service charges paid by AT&T Communications were reduced, a rate reduction could be warranted. Any rate reduction should include the impact of stimulation based upon demand econometrics of each service treated. However, before the impact of stimulation can be recognized the Commission must determine whether it will recognize demand elasticities. The

recognition of demand elasticities requires approval of a demand econometric model and application of the model. Whatever econometric model is approved will pertain to both stimulation and repression. It should also be recognized that any stimulation in demand for AT&T Communications' services would result in an increase in access charges paid to the Local Exchange Company. (Exh. AT&T4, p.8)

72. MBT does not directly testify to the structure of AT&T's prices, but does address the stimulation/repression issue:

I would suggest that any change in service volumes recognized in an ensuing rate change implemented by the Company. The revenue changes resulting from price elasticities in Mountain Bell's General Rate Case (Docket No. 84.4.19), Depreciation Case (Docket No. 85.5.17), and this Access Docket should be combined and recognized at one time. (Exh. MB3, pp. 20-21)

73. NWTS proposes "that an equal adjustment to (AT&T's) toll charges should occur coincident with the shift of NTS costs to end user charges (Exh. NWTS1, p. 6). NWTS does not testify to the stimulation/repression issue.

74. The NWTS/AT&T (p. 3) and GTNW/AT&T (p. 2) stipulations both feature the following language:

It is AT&T Communications' intent to implement a toll decrease, volume discounts, and/or other appropriate rate adjustments in response to the proposed access charge reduction, if approved by the Commission.

75. The RMTS testify that there should be an off-setting reduction in AT&T prices (Exh. p. 14) Regarding stimulation, the RMTS testify that "stimulation should be considered ... and sufficient work has been done to allow for a reasonable quantification of this type of change" (pp. 14-15). However, due to recent industry structural changes the measurement has become more complex, leading the RMTS to propose an annual review and adjustment process (p. 15).

76. Because the MCC does not recommend a change in the NTS/CCLC level, it does not specifically address AT&T's prices. However, the MCC, generally, appears to suggest that "the Commission could then assign intrastate toll loop costs to carriers and allow each competitive carrier to determine how to recover his allocated costs" (Exh. MCC2, p. 16). In the presence of an actively competitive market, it is unlikely that flat-rated interexchange NTS charges (i.e., CALC) would be sustainable. Even in the absence of an actively competitive market, the MCC contemplates that AT&T would require regulatory authorization to develop

nonavoidable residential interexchange CALCs. The MCC does not testify to the stimulation/repression issue.

77. The MPSC finds that AT&T's prices should be reduced simultaneously with the two-step reduction in NTS/CCLC on a revenue neutral/dollar-for-dollar basis. In Docket No. 83.11.80 (Order No. 5044d, pp. 18-24) the MPSC provided Findings regarding AT&T's price structure. In that Order the MPSC directed AT&T to apply an equal percentage reduction to both MTS and WATS. The reduction was limited to the usage price elements and the MTS usage reductions were further targeted to the higher mileage bands that featured prices higher than the comparable interstate prices. The MPSC finds that the AT&T prices should be revised in the same manner in this Docket. To the extent possible, the MTS and WATS pricing should correspond with pending FCC changes (e.g., the June 1, 1986 5% reduction), as well as any existing disparity in prices.

78. The stimulation/repression at issue in this Docket includes; 1) stimulated MTS/WATS, 2) stimulated MOA, and 3) repressed LEC sales. Additionally for MBT, the repression/stimulation acknowledged but deferred in Docket Nos. 84.4.19 (pp. 36-37), 85.5.17 (pp. 5-6), and 83.11.80 (see Order No. 5046, p. 37) is left unresolved.

79. In Docket No. 84.4.19 (see p. 36) the MPSC chose to recognize the appropriateness of reflecting future repression/stimulation in prices. In this Docket, the MPSC finds the evidence insufficient to allow specific calculations of the, presumably, net stimulation.

80. It is not clear whether NWTs, GTNW, or the RMTS readily have the analytical capability to prepare accurate estimates of net revenue stimulation. Assuming 1) any subscriber access repression will be negligible, 2) the cost-offsets associated with stimulation MOA consumption is negligible, and 3) AT&T is capable of providing sufficiently accurate estimates of LEC-specific stimulated MOA; then reliable estimates of stimulated MOA net revenues may be attainable. For NWTs, the 80 percent bulk bill will limit the realized stimulation and for GTNW the dollars at issue may not warrant the administrative costs of quantifying the stimulation.

81. For MBT the situation is complicated by the previous deferrals of acknowledged repression. The complexity includes changes in the basis of historical sales volumes (i.e., test years). It is not now clear whether MBT is even in a net repression or stimulation position.

82. AT&T appears to be the one party readily capable of recognizing net revenue stimulation in its revised prices. Even here, the specific econometric demand and cost-offset models have never been presented to or examined by the MPSC in a proceeding (see, e.g., Order No. 5044d, p. 24).

83. The MPSC finds that the existing evidence does not provide an adequate basis to allow incorporation of stimulation/repression in the first step price change. Given the complexity of the revenue-neutral price change, the MPSC finds that the first step price change should be filed on a straight-reprice will uniformly feature historical 1985 sales volumes. A docket will be initiated to examine stimulation and repression for telecommunications services with the possibility of incorporating stimulation and repression into the second step price change.

DISCOUNTS FOR FEATURE GROUPS A AND B

84. AT&T and Mountain Bell both propose eliminating the discounts for Feature Group A (FGA) and Feature Group B (FGB). The reason given by both is that there is no significant cost difference between FGA and FGB, and Feature Group C (FGC) and Feature Group D (FGD). The cost evidence submitted by MBT (Exh MB7) indicates that there is no cost-related basis for the discount. However, the MPSC finds that some differential in rates should remain. This Order provides carrier access prices which, to a substantial extent and as proposed by both MBT and AT&T, are based on value – not cost. The MPSC finds that there is a significant value-related difference between FGA/b and FGc on the originating end. To eliminate all discounts immediately could result in unacceptable rate shock to FGA customers (currently there are no FGB customers in the state). The rate shock could result in some resellers going out of business. Such a decision should not be made without further study of the need for some rate differential for inferior access quality on the originating end. It would also be incorrect to increase FGA and FGB CCLC rates dramatically and then decrease those same rates in a year for the second step in decreasing the CCLC referenced above. Currently, however, some FGA a FGB rates are below incremental cost indicating some adjustment is needed.

85. The MPSC finds that CCLC rates for FGA and FGB should remain at current levels. This will have the effect of reducing the discount for CCLC rate element because CCLC rates for FGC and FGD will b reduced over the next two years.

86. The MPSC finds that eliminating 50 percent of the discount for traffic sensitive rates is appropriate. This at be done in a two year period (i.e. 25% this year and an additional 25% when tariffs are filed in 1987 to complete the two year phase to SLU for the CCLC.) This type of reduction in the discount will take into consideration the fact that. there is no difference in the quality of terminating access. Assuming there is an equal number of minutes for originating and terminating intrastate traffic, at the end of two years the rates for FGA and FGB would reflect no discount for terminating traffic. The MPSC is not convinced the discount for originating FGA/FGB traffic should be eliminated vased on the value of this service verses the value of "premium" access.. The MPSC would like to see further information on this area in future cases.

87. Mountain Bell expressed concern that AT&T could subscribe to FGB terminating access if it were offered at a discount thereby causing a significant decrease in access revenues. The Commission finds that no carrier should be allowed to subscribe to different feature groups for its terminating traffic than it subscribes to for originating traffic to avoid payment of higher access rates.

FGA LIMITED TO THE LOCAL CALLING AREA

88 Mountain Bell proposed that Feature Group A/Foreign Exchange (FGA/FX) terminating access be limited to the local calling area. Prior to divestiture Mountain Bell charged private line rates between two Foreign Exchange central offices for this service. The open end was billed at a 1FB (single party business service) rate. Beginning January 1, 1984 Mountain Bell could no longer offer interLATA FX service. AT&T now bills for the portion of an interLATA FX between AT&T's points of presence, Mountain Bell bills the open end of the interLATA FX service was billed in the past. While FX customers did not have the ability to terminate calls LATA-wide on the open end prior to January 1, 1984, they were also not charged a FGA rate which is much higher than a 1FB rate. If Mountain Bell were to bill a 1FB rate for the open end of an interLATA FX service the customer would not be allowed to terminate calls LATA-wide. However, this would leave the costs of this service from AT&T's point of presence to the end office serving the FX customer unrecovered. If interLATA FX customers are required to subscribe to FGA rates then they should receive all the benefits usually attributed to that service. However, the MPSC realizes that charging FX customers FGA rates is probably not

acceptable on a long term basis. Mountain Bell should file tariffs in some future case that are specifically tailored to the interLATA FX situation. In the interim the MPSC finds that Mountain Bell should continue to offer LATA-wide termination with FCA/FX.

CARRIER ACCESS SERVICES LIMITED TO CARRIERS AND RESELLERS

89. Mountain Bell proposed that carrier access services be limited to carriers, resellers, and subscribers to interLATA FX or Off Network Across Line (ONAL) services. No other LECs request this restriction and no other party addressed this issue in this docket. The MPSC finds restricting carrier access services to carriers, resellers, and interLATA FX/ONAL subscriber unreasonable and unnecessary. All, carrier access rates are above the incremental costs of those services. In fact many of rates are far above the incremental cost (see Exh. LFC I). No subsidy flow would exist to customers subscribing to access services. In fact, allowing large customers to subscribe to access services may keep customers that would otherwise bypass the LEC network on the system thereby keeping some contribution to cc costs that would be lost in a facility bypass situation.

OTHER CARRIER ACCESS TARIFF ISSUES

90. Mountain Bell proposed several modifications not discussed above to the current intrastate carrier access tariffs that are contained in the interstate carrier access tariffs. The modifications concern the application of the prorate to FGA and FGB and the changes listed in Mr. Young's Exhibit TFY 2. No party objected to any of these changes and the MPSC finds them reasonable.

91. AT&T filed rebuttal testimony concerning six areas of the Mountain Bell tariffs (Exh. AT&T 3). Since these issues were first brought to the MPSC attention in rebuttal the MPSC chooses not to rule on them without further information. The MPSC directs both companies to resolve these six areas outside a formal proceeding and file an explanation of the resolution with appropriate tariffs for MPSC approval. If MBT and AT&T cannot resolve the dispute within ninety days, they shall return this matter to the Commission for resolution. At that time, they shall specify the agreement reached and the remaining issues to be resolved by the Commission.

92. AT&T requested the Commission order MBT to refund CCLC payments made by AT&T during 1984 and 1985 for the closed end of an intrastate WATS line. AT&T argues that the access line is provided by MBT to the WATS customer and billed by MBT through the MBT exchange tariffs. Therefore, to pay a CCLC rate on those access minutes associated with originating WATS traffic would allow MBT double recovery on those facilities. (TR pp. 300-301). Since the MBT has clearly been following its tariffs the MPSC finds that no refund is warranted. MBT charges almost all customers directly for basic access. However, on a statewide basis the basic exchange rates do not recover all the costs of access. Therefore, MBT recovers part of these costs through intraLATA toll usage rates and carrier access rates. Based on the record in this docket it is unclear how this situation differs from the WATS access line. The MPSC directs MBT and AT&T to work together to resolve this issue and to file a report to the Commission within 90 days.

93. Parties to this docket submitted almost no testimony concerning billing and collection tariffs or special access tariffs. The MPSC directs LEC to continue the existing tariff arrangements for these two areas.

COMPLIANCE TARIFFS

94. AT&T filed testimony stating the need for further review of the cost studies used to determine access charges. These cost studies were submitted in response to interrogatories. At this time AT&T should have had adequate time to review the cost studies. However, the MPSC's direction on calculating access charges in this order may deviate from the calculations based on cost studies filed previously. Therefore, the MPSC will allow 15 working days from the date compliance tariffs are received by the MPSC for review of those tariffs by other parties to this docket. Comments on those tariffs may be filed in that time period. However, any comments must be limited to whether or not the tariffs are in compliance with the MPSC's direction in this order.

95. Generally, the compliance effort must be supported by the sales (quantity), price, and revenue data for each change in prices that results from this Order. Each utility must provide sufficient evidence of the revenue neutrality featured in the Order. Complying price revision with supporting documentation are to be filed within 15 days of the service date of this order.

All parties will have a 15 day period to review the filings. It is contemplated that revised prices will be effective July 1, 1986

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the investor—owned telephone companies providing telephone service in Montana pursuant to Title 69, Chapter 3, MCA. The telephone cooperative companies who participated in this docket have done so voluntarily. Such participation in no way confers jurisdiction over their operations.

2. The rates resulting from the rate restructuring contained herein are just, reasonable and not unjustly discriminatory, 69-3-201, MCA.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION ORDERS:

1. The regulated exchange carriers shall file tariffs within 15 days of the issuance of the final order reflecting the findings of fact set forth in this order.

DONE AND DATED this 19th day of May, 1986 by a vote of 3-1.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

Howard L. Ellis, Commissioner and Acting Chairman

Danny Oberg, Commissioner

Tom Monahan, Commissioner

John B. Driscoll, Commissioner
DISSENTING

ATTEST:

Trenna Scoffield
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.